ORIGINAL
FILE

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Price Cap Performance Review For AT&T	)	CC Docket No. 92-134
	)	

COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys, and pursuant to the Notice of Inquiry[1] released July 17, 1992, hereby comments on one of the issues described in the Notice of Inquiry. In these comments, SWBT respectfully requests that an aspect of AT&T's price cap plan should be altered to remove the bias against the use of local exchange carrier (LEC) access services.

I. THE COMMISSION SHOULD ELIMINATE THE BIAS IN THE AT&T PRICE CAP PLAN THAT FAVORS BYPASS SERVICES OVER LOCAL EXCHANGE CARRIER ACCESS SERVICES.

The current price cap plan for AT&T does not require AT&T to pass through savings that it achieves through the use of bypass. This matter was considered in the Report and Order on Second Further Notice of Proposed Rulemaking released April 17, 1989.[2]

In the R&O/SFNPRM, the Commission did not discuss the competitive disadvantage that this aspect of the AT&T price cap

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[1] Price Cap Performance Review for AT&T, Notice of Inquiry, CC Docket No. 92-134 (FCC 92-257) (released July 17, 1992). The Common Carrier Bureau (Bureau) later extended the submission dates for comments and replies. Price Cap Performance Review for AT&T, CC Docket No. 92-134, Order, (DA 92-1042) (released July 29, 1992).

[2] Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd. 2873 (1989) at para. 304 (R&O/SFNPRM).

plan places on LECs. Given that the competitive atmosphere in the access services market has now changed, the Commission should now remove this disadvantage.

In the Order and Further Notice of Proposed Rulemaking in CC Docket No. 91-213,[3] the Commission stated that it wished "to avoid adopting transport pricing requirements that would interfere with the development of interstate access competition."[4] The Commission noted that

> in particular, . . . the competitive access providers (CAPS) will presumably charge flat-rate, cost-based rates for their transport services that could be more attractive to high volume users of interstate access than the usage-based LEC charges.[5]

In light of the Commission's stated intent not to interfere with the development of interstate access competition, and its recognition that high volume users such as AT&T may already find CAP pricing plans more attractive than current LEC plans, the Commission should not, in this proceeding, reaffirm an aspect of AT&T's price cap plan that encourages use of non-LEC access services even when LEC access services are lower priced. Therefore, SWBT recommends that the Commission consider means of eliminating the current bias in the AT&T price cap plan that encourages uneconomic bypass of LEC services by AT&T. SWBT

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[3] MTS and WATS Market Structure Transport Rate Structure and Pricing, 6 FCC Rcd. 5341 (1991) at para. 11. (Transport Order).

[4] Transport Order at para. 11.

[5] Transport Order at fn. 35.

supported such a change in the AT&T price cap plan in its Comments to the Petition For Reconsideration of the Bell Atlantic Telephone Companies, CC Docket No. 87-313, filed July 17, 1989.[6] One such means of eliminating the bias in the AT&T flow-through of LEC access charges is to freeze the proportion of AT&T costs represented by LEC access charges at some fixed historical level. SWBT would support such a modification or other appropriate means of removing the bias.

II. CONCLUSION

For the foregoing reasons, the Commission should reexamine the formulas for computing AT&T's price cap indices in order to eliminate the bias in the AT&T price cap plan that encourages uneconomic bypass of LEC access services.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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September 4, 1992

[6] A copy of these comments is included as Attachment A.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Policy and Rules Concerning Rates for Dominant Carriers	)	CC Docket No. 87-313

COMMENTS TO THE PETITION FOR
RECONSIDERATION OF THE
BELL ATLANTIC TELEPHONE COMPANIES

Southwestern Bell Telephone Company ("Southwestern Bell") hereby submits these Comments to the Petition for Reconsideration of the Bell Atlantic Telephone Companies ("Petition") filed on June 8, 1989. In its Petition, Bell Atlantic requests the Commission to amend the price cap adjustment formula in AT&T's price cap plan in order to alleviate the bypass incentive created by the formula. Southwestern Bell concurs in Bell Atlantic's request.

As Bell Atlantic notes, the incentive for AT&T to engage in uneconomic bypass through the AT&T price cap plan arises from the ability of AT&T to control one of the key variables in the price cap adjustment formula used to calculate its Price Cap Index ("PCI"), i.e., the quantity of access services purchased. When access charges are falling, AT&T can avoid a reduction in its PCI by substituting bypass services for access services even if bypass services cost the same or are higher than access services. This feature of the AT&T price cap plan undermines the purpose of incentive regulation and should not be retained.

One of the primary attributes of incentive regulation is that it reduces costs by encouraging operating

efficiency. Rewarding uneconomic bypass, which involves the utilization of relatively more costly duplicative facilities, via the price cap adjustment formula, would be the antithesis of that goal. The ongoing development of the large alternative metropolitan networks[1] could create the incentive for AT&T to take advantage of the loophole in the price cap adjustment formula of its price cap plan in that manner. Through providing its services via large alternative metropolitan networks, AT&T will have the ability to render local exchange carrier ("LEC") access services vulnerable to bypass. Extraordinary volumes of traffic can be diverted to these newly constructed alternative networks from LEC facilities used to provide tariffed access services. Since numerous alternative service providers currently exist in this market and even more alternative service providers probably will exist in the future, AT&T will have the potential of engaging in uneconomic bypass. The price cap adjustment formula in AT&T's price cap plan would provide AT&T with the incentive to engage in bypass of the LECs.

Therefore, the PCI formula of the AT&T price cap plan should be modified as suggested by Bell Atlantic to require the use of the access volume purchased by AT&T in

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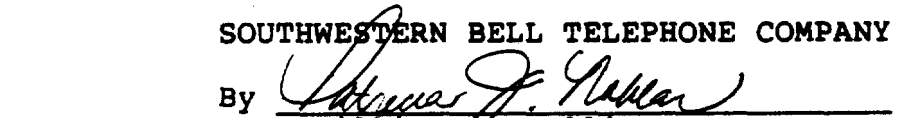
[1]Exhibit A contains some examples of large metropolitan networks which are currently in place or that will be implemented in the near future.

the calendar year immediately prior to the beginning of the price cap trial as the basis for adjusting AT&T's PCI to reflect changes in local exchange carrier ("LEC") access charges. By merely changing the definition of the base period used in calculating the PCI formula of the AT&T price cap plan, the incentive for AT&T to deploy uneconomic bypass systems would be eliminated. At the same time, AT&T's attempts to improve profitability by otherwise reducing costs would not be hindered.

Southwestern Bell strongly urges the Commission to eliminate the incentive for uneconomic bypass which is embedded in the price cap adjustment formula of AT&T's price cap plan by modifying the definition of the base period for the volume of LEC access services purchased by AT&T as discussed herein. This corrective action would be neither complex nor disruptive. More important, the modification would ensure the public interest is served through encouraging operating efficiencies which lead to lower costs and rates.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By 

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July 17, 1989

E X H I B I T A

INDUSTRY OBSERVER

MAN provider declares "war" on BOCs: A Chicago-based company, Metropolitan Fiber Systems (MFS), has declared itself in competition with the BOCs, at least as far as the local loop is concerned. In a recent newsletter the company's president, Anthony J. Pompliano, states: "In 1989, MFS is taking on a 70 billion dollar entity — the regional Bell operating companies in major metropolitan areas where MFS operates and plans to initiate construction of new local-access networks." MFS has offices in Chicago, Philadelphia, Baltimore, Boston, and Minneapolis. *Telecommunications* spoke with Pompliano to find out how his company intended to fulfill its overarching ambitions. "MANs are pretty much the last frontier in telecommunications," observes Pompliano. "Some people view it as a niche market, but I look at it as an industry in the making. We're competing against the last national monopoly." Pompliano says events such as the Hinsdale fire have brought home the need for alternative service to exist in high-density local exchange areas and thinks this will be an important growth stimulator for MFS and other MAN providers. MFS has already completed or nearly completed projects in Philadelphia, Baltimore, and Minneapolis. Another project is underway in Boston, where four other companies (including New England Telephone) are involved in placing fiber-optic capacity in Boston's financial district. Pompliano also envisions an almost MCI-like legal battle in the years to come to open up the local loop for competition much the same as MCI did in the long-distance marketplace. A recent decision by the New York Public Service Commission requiring NY Telephone to give NY Teleport access to its business customers in Manhattan is something that Pompliano expects to see much more of in the years to come. "New York Teleport's victory is only the first round," Pompliano notes. "The next step is forcing the operating companies to unbundle tariffs so entities such as ours and New York Teleport can offer local switched services giving customers local dial tone as an alternative to the Bell System. We will actively pursue that."

What happened to the "M" in MIS?: Is there a subtle stigma attached to the term MIS/DP? Are the implications that of massive amounts of budgetary resources poured into a "black hole" of technological overkill with little to show for it? Finally, has renegade PC deployment created a centralization of computer and networking resources which only a new organizational approach can cure? These and other questions are explored in a new report from Forrester Research which paints an interesting picture of the future role for network managers. The report, *Netcentric Management*, first of all, contends that the early 1990s will see a major departure in how large corporations handle telecommunications — namely, that the chief networking officer (CNO) will emerge in earnest, based on the fact that current attempts to merge MIS and telecom functions are doomed to failure. Why has this attempt fared so poorly? "Though the joining of MIS and telecom produced some savings in administration and created volume purchasing power in some instances," notes the report, "it has levied a cost on many telecom efforts. Under MIS/DP, telecommunications was pushed further into mundane areas like PBX acquisition and long-distance voice, and away from hot areas like network management." In the next phase, the study contends, new demands will be made on companies to cope with networking issues. Three major trends will drive this phenomenon. New technologies will emerge that are not the province of either MIS or telecom. Computer resources will continue to be decentralized. And networking will become increasingly important. A new organization — dubbed "Information Systems" or IS — will be called upon in this environment to tackle these problems by coming to grips with standards in a meaningful way, and bringing renegade computer acquisition back under the umbrella of a uniform corporate game plan.

Frame relay — What is it?: Frame relay is something users are likely to be hearing more and more about in the months to come. But what exactly is it, and why is it becoming important? First of all, frame relay is a still-evolving CCITT ISDN interface standard (I.122), and is considered a precursor of broadband or B-ISDN. Frame relay can be described as "a packet-mode interface layered on top of narrowband ISDN," according to David Owen, Director of Product Marketing for StrataCom, a major proponent of this technology. It can run over a B, D, or H channel, says Owen, and allows packet-mode devices to exchange information over an ISDN. More specifically, it's a way of integrating packet switches and fast-packet switches using an ISDN protocol, an important transitional step in the move toward B-ISDN, which, like the technology StrataCom offers, is expected to be based on fast-packet technology. In order to make this transition, a portion of the B-ISDN standards has been set aside for use in the narrowband environment on an interim basis, explains Owen. StrataCom would, for obvious reasons, like to accelerate the development of the standard and, accordingly, has teamed up with U.S. Sprint to implement frame relay as a partial standard in hopes of accomplishing that goal. □

— Tom Valovic, *Senior Editor*

■ WHAT'S NEW? WHAT'S NEWS?

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NEWS MEDIA REPORT

DALLAS (CITY) TX (STATE) MORNING NEWS (NAME OF NEWSPAPER) 1D (PAGE) 6-8-89 (DATE OF PUBLICATION)

Fiber-optic network planned

By Tom Steinert-Threlkeld
Staff Writer of The Dallas Morning News

An Illinois company said Wednesday it plans to build a fiber-optic communications network in downtown Dallas, competing with the local phone network of Southwestern Bell Telephone Co. for business from corporate customers.

Metropolitan Fiber Systems Inc., which already has built or is building similar networks in a half-dozen other major U.S. cities, said it plans to lay nearly 220 miles of fiber-optic cable in a five-mile network connecting about 21 million square feet of downtown Dallas office space by mid-1990.

That network will compete with the 4.8-mile fiber network Southwestern Bell has installed in downtown Dallas.

Such fiber networks are expected to supplant the use of pairs of copper wires in telephone networks.

Those copper pairs carry one conversation apiece, with one copper strand carrying the voice of the caller and the other strand carrying the voice of the respondent.

By contrast, a pair of fibers, made out of hair-thin strands of glass filament, can carry thousands of communications circuits apiece, for either conversations or data transmissions.

For instance, the Metropolitan network will transmit pulses of l[illegible] at the rate of 90 million bits a [illegible]ond, said Metropolitan's vice president of corporate planning and information management George M. Tronsrue III.

That is a relatively slow speed in fiber-optics, carrying as many as 1,400 conversations per fiber pair simultaneously. At higher speeds, current fiber technology allows as many as 24,000 conversations to be transmitted in the same fiber pair, by using different frequencies of light. Mr. Tronsrue said Metropolitan therefore could raise the capacity of its local network without laying additional fibers.

Mr. Tronsrue said Metropolitan is prepared to spend between $5 million and $7 million initially on installing the downtown Dallas network. The company is backed by Kiewit Communications Co., a subsidiary of Peter Kiewit Sons, a Chicago company that racked up $4.7 billion of sales last year from such diverse interests as Continental Can Co., Kiewit Construction and mining.

The new network would allow companies to communicate between switches connected to the system, such as private telephone exchanges installed by the companies themselves, private exchanges at the office buildings they inhabit or switches that would connect the Metropolitan local loop to such long-distance telephone networks as those belonging to American Telephone & Telegraph Co., MCI Communications Corp. or US Sprint.

The Metropolitan network, however, will not be connected to the Southwestern Bell local network, meaning businessmen cannot call home, for instance, using this new network. Mr. Tronsrue said it was "unprofitable, if not unfeasible, at this point" to connect to local offices of regulated local telephone companies.

The new network instead will offer high-volume communications users a local alternative to the Bell network for business purposes. The Metropolitan network will offer more reliability, with backup capacity and rerouting systems built-in, higher quality transmission of either voices or data, and, at least initially, savings of about 10 percent to 20 percent compared with Bell, for similar volumes of communications, Mr. Tronsrue said.

"The quality is superior and unmatchable by a copper-based system, especially for data," he said.

However, he acknowledged that the company still has "significant groundwork" to lay with the city of Dallas, in order to receive permission to install its network beneath downtown streets. In other cities, the company has leased the use of such conduits as ducts already laid for gas utilities; or, dug its own network.

Mr. Tronsrue said the Metropolitan network likely would be in place six months from the date permission to proceed is granted. The company, which plans to be a nationwide operator of such networks, expects to have systems installed in 20 major cities by the end of 1990.

"It introduces a competitive aspect to local transport," said Eric C. Zimits, telecommunications analyst for Rauscher Pierce Refsnes Inc. in Dallas.

METROPOLITAN FIBER SYSTEMS

Headquarters: Oakbrook Terrace, Ill.

Founded: 1988.

Revenues: Has not yet completed a full year with revenues.

Business: Constructs local fiber-optic telecommunications networks in major U.S. cities, in competition with Bell operating companies, for corporate customers.

Systems: Networks installed and operational in Chicago, Philadelphia and Baltimore. Networks under construction in Boston, Minneapolis, Los Angeles and San Francisco.

Backing: Associated with Kiewit Communications Company Inc., a subsidiary of Chicago's Peter Kiewit Sons companies, which include Continental Can Co., Kiewit Construction and various mining interests.

SOURCE: Metropolitan Fiber Systems Inc.

The Dallas Morning News

NEWS MEDIA REPORT 1 OF 2

DALLAS (CITY) TX (STATE) DALLAS BUSINESS JOURNAL (NAME OF NEWSPAPER) 1 (PAGE) 4-10-89 (DATE OF PUBLICATION)

TU teams to build fiber-optic network

Local dedicated line service would compete directly with SW Bell

By Steven Vonder Haar

Texas Utilities Co., which provides electric service to the Dallas area, has signed an agreement to build a local fiber-optic telecommunications network for a Dallas-based start-up company.

Columbine Telenet Inc. will pay Texas Utilities up to $35 million to string as much as 140 miles of fiber-optic cable alongside electrical cables Texas Utilities already has in place.

The agreement, one of the first of its kind in the state, puts Texas Utilities into a potentially adversarial role with another major utility in the state, Southwestern Bell Corp.

Columbine Telenet, which expects to launch its first services by the end of the year, will market its network as an alternative for businesses that now lease dedicated phone line service from Southwestern Bell Corp., said Columbine Telenet President Neill Seeber.

Although similar networks have been established in a small number of cities — including New York, Boston, Chicago and Tulsa, Okla. — the Columbine fiber-optic system likely will be the first of its kind in the state of Texas, industry observers say.

Seeber, formerly president of the company that built the Tulsa private network, said he expects Southwestern Bell to respond aggressively to its new competition in Dallas. When the Tulsa network was established, Southwestern Bell cut its prices in the region and filed a complaint with that state's utility commission.

Officials of both Columbine Telenet and Texas Utilities say they would not be surprised to see Southwestern Bell file a complaint with the Texas Public Utility Commission regarding the case. But because Southwestern Bell lost its petition to the Oklahoma utilities commission, officials say they are not overly concerned about possible filings by the company in Texas.

"We don't really expect any troubles," said Texas Utilities' spokesman Dick Ramsey. "We're [illegible] maximize the return from our assets by utilizing a fiber-optic network."

Once the network is in place, Texas Utilities will receive free use of part of Columbine Telenet's network for its own data communications system. In addition, Texas Utilities will receive part of the revenues generated by the Columbine Telenet services, Ramsey said.

Seeber declined to project potential revenues for the Dallas network or disclose the financial performance of the Tulsa system.

Although Southwestern Bell has an exclusive charter to provide local telephone service in its designated regions, it cannot halt competition from companies such as Columbine Telenet, said Richard Dietz, assistant vice president of rates and revenues for Southwestern Bell's Texas division. These companies are not limited by the Southwestern Bell charter because they do not provide the full range of local telephone services as does Southwestern Bell, Dietz said.

The proliferation of these private networks represents another source of competition for local telephone service providers such as Southwestern Bell Corp. Columbine plans to establish a network that provides fiber-optic service primarily to major business centers in the area such as downtown, Richardson, Plano, the Galleria area and Las Colinas, Seeber said.

Dietz said Southwestern Bell would prefer to be granted more flexibility in setting its rates for dedicated line service. This would allow the company to respond more quickly in the increasingly competitive market for business customers — one of the most lucrative markets served by the Bell companies, Dietz said.

"There's no question that companies offering these kinds of services are just cherry-picking the market," Dietz said.

Corporate users can employ the network to reduce the cost and improve the quality of computer data transmissions over telephone lines, Seeber said. The network also can be used to establish direct fiber-optic links to long-distance networks with similar advanced transmission capabilities.

Many large corporations already use microwave transmission systems to avoid using Southwestern Bell's local telephone service. However, Seeber said customer demand still exists for a private fiber-optic cable-based network because of the limited number of frequencies available for microwave transmission.

Southwestern Bell claims that these so-called bypass services take customers away from the public telephone network, costing the company more than $200 million annually in foregone revenues in Texas alone.

Scott Yeager, president of Network Communications Inc., a company considering building its own private fiber-optic network in Houston, claims Southwestern Bell is overstating the impact of bypass in order to receive more favorable treatment from rate-setting public utility commissions.

"We're not even in business yet and we're already being charged with taking hundreds of millions of dollars away from the Bells," Yeager said. "We may be cutting into their growth curve, but in no way will we cause their revenues to drop."

A private system in a city the size of Dallas likely would generate revenues of between $5 million and $15 million annually, said George Tronsrue, director of strategic sales and marketing for Metropolitan Fiber Systems Inc., an Oak Brook Terrace, Ill., company that has established private fiber-optic networks in five cities in the past two years.

"If you offer only the private line dedicated services, your revenues likely will remain that small," Tronsrue said. "But down the road, new product offerings will significantly expand the revenues that can be produced by this kind of system."

NEWS MEDIA REPORT 1 OF 2

DALLAS TX MORNING NEWS 1F 6-24-89

Networking for success

Firms challenge SW Bell 'monopoly'

By Tom Steinert-Threlkeld
Staff Writer of The Dallas Morning News

Unlike long-distance service, the local telephone business remains a regulated monopoly.

So, naturally, at least two companies plan to establish local telecommunications networks in Dallas by the end of next year, in competition with Southwestern Bell Telephone Co.

The two, Metropolitan Fiber Systems Inc. and Columbine Telenet Inc., plan to establish digital communications networks, primarily using fiber-optic backbones. At least initially, the networks will compete only for business of large corporate customers with massive amounts of voice and data communications.

Metropolitan Fiber, based in Oakbrook Terrace, Ill., plans to construct a 5-mile network in downtown Dallas that will include nearly 320 miles of fiber-optic cable. If it receives needed permission from the City of Dallas to build, its network will compete with the 8.5-mile fiber network Southwestern Bell has installed in downtown Dallas.

Columbine Telenet, based in Dallas, has more ambitious plans. It will compete with local phone companies across the metroplex. Its DFW MetroLink will include 140 miles of telecommunications highways in Dallas, Collin and Tarrant counties, connecting major corporate customers not just in downtown areas, but such major business centers as Las Colinas, the Richardson-Plano corridor and the emerging Alliance Airport area in northeast Tarrant County.

The two communications companies are not drawing lines in the dust and trying to compete with each other. Instead, they are toeing the line with local telephone companies, most notably Southwestern Bell.

"As far as I'm concerned, we're competing with Southwestern Bell. Who else? Time and money will tell the story" of whether there are multiple providers of local communications service, said George Tronsrue, vice president of corporate planning and information management for Metropolitan fiber, which has built or is building similar networks in more than a half-dozen other major U.S. cities, including Houston.

The competition in the local arena remains limited, though. These companies are not installing switching equipment, which selects paths or circuits to route calls to specific businesses or residences in a locale. These companies are not providing "dial tone," the sound you hear when you pick up a telephone that is a signal sent to indicate the line is alive and ready to act on the number you dial.

The companies, in fact, avoid infringing on local telephone companies' monopolies by not altering signals in any way. They also avoid a regulatory ruckus by maintaining they are not setting the foundation for a service that sometime in the future could pro-

LOCAL "LOOPS"

Private companies are beginning to give local telephone companies a run for their money. They are establishing alternative networks for big companies to move massive amounts of voice and data communications around metropolitan areas without entering the local telephone network of companies such as Southwestern Bell Telephone Co. or GTE Southwest Inc. Announcements of new alternative metropolitan networks are picking up speed faster than networks are actually established.

Year	Announced metropolitan alternative networks	Operational networks	Cities with competing networks	Alternative Network revenues (millions)
1987	3	3	0	$19.5
1988	10	8	2	$32.2
1989	24	16	6	$64.7*
1990	38	—	8	$135.4**
1991	41	—	8	$212.6**

*Estimated, **Projected.

SOURCE: Kessler Marketing Intelligence, Newport, R.I.

The Dallas Morning News, Jim Shannon

NEWS MEDIA REPORT 2 OF 2

DALLAS TX MORNING NEWS 1F 6-24-89

vide competing switched service and dial tone in local markets. (This, even though analysts note the breakup of the Bell System itself into separate long-distance and local telephone companies began with Dallas communications entrepreneur Tom Carter's seemingly innocuous effort to attach his Carterfone to the Bell network two decades ago.)

No, all these companies are providing their customers is a telecommunications pipe that will give corporations an alternative to the Southwestern Bell or GTE network for transporting data and voices.

These are big pipes, normally called T-1 carriers. A single such private line can carry the equivalent of 24 conversations at the same time.

But business customers will be able to buy portions of the pipe. Columbine Telenet will sell "fractional" service, meaning companies can buy only as much capacity as they need.

And even though Columbine Telenet will spend $42 million during the next five years to build the backbone of its network, the company is itself a lessee of fiber-optic transmission service. The 140 miles that comprise that backbone will be leased from Texas Utilities Services, part of the power utility, Columbine Telenet's president Neill Seeber said. In turn, sort of like a real estate developer subdividing land, Columbine will turn around and make money by selling off pieces of the pipe.

The Metropolitan network illustrates the ultimate magnitude of these fiber pipes, which are supplanting the traditional copper pipes used in telecommunications.

In the past, conversations required two strands of copper apiece. One strand carried the voice of the caller and the other strand the reply.

But using glass filaments, thousands of conversations can be carried on a single hair-thin pair of fiber tubes. For instance, the Metropolitan network will transmit information in pulses of light — the digits — at the rate of million bits a second. That means the pipe can carry as many as 1,600 conversations simultaneously in a pair of fibers — a relatively slow speed in fiber-optics. As speeds increase and technology splits light into ever-finer frequencies, 24,000, even 48,000 and more, conversations will be carried on a single pair of fibers.

That means Metropolitan and Columbine theoretically can increase the capacities of their networks without having to lay new pipe.

Yet having a fiber pipe is not the competitive advantage of these new entrants into local telecommunications transport. Southwestern Bell, for instance, is deploying fiber anywhere it is economic, said Dave Noblet, the company's district manager for network distribution. For Bell, that also means locales where there are heavy concentrations of big corporations.

The networks also are not designed to let those big corporations talk to each other, locally, through an alternative network.

Instead, the new competitors serve two transportation needs. One is getting companies' long-distance traffic to the local access points of major long-distance networks such as those belonging to MCI Communications Corp., American Telephone & Telegraph Co. and US Sprint. The other is carrying traffic between multiple locations of the same company.

In such cases, the dial tone is supplied by the companies' own private phone systems, known as private branch exchanges. Switching also is provided by those exchanges and the long-distance companies' switches.

"What we're providing is nothing but a pipe. What pours in one side, pours out the other," said Mr. Seeber.

But, in the case of long-distance traffic, that can be important. US Sprint, for instance, advertises its all-fiber network as so clear that you can hear a pin drop, even on a coast-to-coast transmission. But that is not the case if the traffic travels the first and last miles on copper pipes, Mr. Seeber said. In communications, the transmission is only as good as the weakest link. You can have thousands of miles of fiber, but if the call still must pass through copper, the pin may not be heard.

Yet the nation's phone networks increasingly are transmitting only digital information. Once calls are converted into digits, interference and noise are irrelevant. They don't change the values of the digits.

Thus, long-term, these new competitors can't compete solely on reliability or quality, because those characteristics largely will become commodities in an all-digital world, said Mr. Tronsrue.

Instead, the new local phone companies likely will initially attract new customers by offering savings, in the range of 15 percent to 20 percent, and promising more responsiveness to customers' needs.

"The major competitive advantage we have is we're not a monopoly," said Mr. Tronsrue. "Monopolies have a tendency to creep toward mediocrity."

Mr. Noblet will not say how Southwestern Bell will respond to the new competition. But he does warn that the new competitors will be aiming at the most profitable business, skimming the cream of the market. "If they take off the big ones, the harder it is for us to serve everyone," and keep the company's regulated rates down, said Mr. Noblet.

"The object is to get in and get a lot of traffic on as little a network as possible," said Richard Mack, telecommunications analyst with Kessler Marketing Intelligence, in Newport, R.I.

As the number of companies offering different services that bypass local carriers proliferate, the Bell operating companies already are warning in filings with the Federal Communications Commission that billions of dollars are being lost to the new competitors.

Alternative metropolitan networks are still a small business, with announced networks still exceeding operational networks by a good margin. Last year, revenue reached just $32.2 million nationwide for such metropolitan networks, according to a soon-to-be-released study by Mr. Mack at Kessler Marketing Intelligence. Business Communications, Norwalk, Conn., also chides the Bell companies, saying they overestimate their losses to services that bypass the local networks by about $2 billion.

But Columbine Telenet, which will soon be renamed MetroLink Group Inc. as it tries to establish similar networks around the country, thinks it has a tiger by the tail. In Tulsa, the company does almost no marketing and certainly no advertising. It took six months in operation for word to get around of the company's alternative local loop, before customers started really coming in the door, said Mr. Seeber. But, "then it was an avalanche after that."

CERTIFICATE OF SERVICE

I, Gigi Renaud, hereby certify that the foregoing "Comments of Southwestern Bell Telephone Company" in Docket No. 92-134, has been served this 4th day of September, 1992 to the Parties of Record.

Gigi Renaud

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September 4, 1992

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